Portland Utility Review Board FY 2005-06 Annual Report to Council September 26, 2006

The purpose of the Portland Utility Review Board (PURB) is to advise the City Council, on behalf of and for the benefit of the citizens of Portland, on water, sewer, stormwater and solid waste and recycling financial plans and rates. The PURB is required to submit an annual report to the City Council summarizing its work for the prior year.

The PURB meets once each month to discuss issues and develop recommendations. Members of the PURB also participate in various City efforts and initiatives related to the City's utilities and solid waste regulation. Over the past year individual members of PURB have participated in the following efforts:

- Administrative Review Committee (BES and Water bills by Utility Customer Services)
- Bureau of Environmental Services budget development process
- Bureau of Environmental Services CIP Task Group
- Bureau Innovation Project (BIP) #11 Merger of Water and BES Financial Operations
- Eastside Combined Sewer Overflow Review Committee
- Long Term 2 Enhanced Surface Water Treatment Attorney Selection Committee
- Long Term 2 Enhanced Surface Water Treatment Stakeholder Group
- Portland Water Bureau budget development process
- Solid Waste and Recycling Advisory Committee
- Wholesale water contract negotiation process (as observers)
- Wholesale Contract Rate Model Committee

Within the past year the PURB developed the following recommendations:

10/20/2005 02/16/2006	Bull Run Habitat Conservation Plan Federal Appropriation for Bull Run Road Decommissioning - a Letter to Senator
	Gordon Smith
03/17/2006	Regional Water Sales Agreement
05/12/2006	BES Bond Term Extension
05/12/2006	Cost of Service Memo
05/24/2006	PURB Rate Testimony
06/16/2006	Bull Run Fire Management Plan

We look forward to working with the City Council in the coming year on issues of importance to ratepayers and City Council members.

Attachments

PORTLAND UTILITY REVIEW BOARD (PURB) ISSUE PAPER RECOMMENDATION October 20, 2005

Issue

Habitat Conservation Plan for threatened fish in the Bull Run Watershed.

Background

The Portland Water Bureau has initiated work to draft a Habitat Conservation Plan proposal to submit to the National Marine Fisheries Service and the US Department of Fish and Wildlife as the City's plan to comply with the Endangered Species Act, and support the recovery of threatened fish species, namely Chinook Salmon and Steelhead Trout.

Commentary

Native salmon and steelhead are a cultural icon for this region and the people who live here. They play an important role in this regions ecology, economy and culture. Our community places a high value on the protection and conservation of these species. The Portland Utility Review Board (PURB) endorses the efforts of the Portland Water Bureau (PWB) in its efforts to develop a Habitat Conservation Plan (HCP) for its facilities and operations and the conservation of the species whose survival depends on the resources that the PWB manages. The PURB understands that the PWB is committed to providing the highest quality water at the lowest possible price. The PURB believes that it is possible for the PWB to achieve this goal while at the same time meeting its regulatory requirements. The HCP provides long term assurances for the operators and users of the Bull Run facilities as well as the providing the necessary environmental protections for water quality and fish.

Recommendations

The Portland Utility Review Board (PURB) recommends that the City continue in it's support of the development of an HCP.

Vote

Unanimous (6 members affirming, 3 PURB seats are vacant)

February 16, 2006

Senator Gordon Smith One World Trade Center 121 SW Salmon Street, Suite 1250 Portland, OR 97204

Dear Senator Smith:

The Portland Utility Review Board would like to request that you support the City of Portland's efforts to obtain an earmark appropriation of \$464,000 in the Forest Service's budget for Bull Run road decommissioning. The funding would be spread over a two-year period.

The Bull Run watershed is the primary municipal water supply for more than 800,000 Oregonians, or about 22% of the state's population. A forthcoming environmental assessment by the Mt. Hood National Forest indicates that there are about 23 miles of roads in the Bull Run water supply drainage that require "active decommissioning" (i.e., culvert removal) and an additional 47 miles of roads in the remainder of the Bull Run Management Unit that need to be decommissioned. These roads are not needed for access to water supply facilities or for fire protection and the Forest Service has no funding for their continued maintenance. It is important to note that the City has agreed to take on maintenance responsibility for all roads in the Bull Run Management Unit that are needed long-term access by the City and the Forest Service. The City anticipates investing approximately \$380,000 per year for routine maintenance and up to \$7.5 million in road capital improvements over the next 10 years.

The Forest Service's 1997 Bull Run Watershed Analysis concluded that roads constitute the single greatest management-related risk to water quality in the watershed. The 1994 Northwest Forest Plan directed the Forest Service to close and obliterate roads that are not needed for the long-term transportation network. Decommissioning unnecessary roads will decrease the long-term risk of turbidity problems associated with the road system by removing culverts that will otherwise be at risk of becoming plugged during storm events. Lessening the risk of road failures near stream crossings is also important for protecting aquatic habitat.

We urge that you support the City's request for an earmark appropriation for the Bull Run decommissioning program. Approximately 44 miles of road have already been actively decommissioned in the Bull Run water supply drainage. Therefore, two-thirds of the program has been completed. Treating the remaining 23 miles of roads in the Bull Run water supply drainage will complete this important program which will help reduce the source of management-related turbidity in the City's water supply.

Sincerely,

Frank Ray, Chair

John Tyler, Vice Chair

Scott Fernandez, Member at Large

Deborah Lark, Commercial/Industrial Member

Dennis Leland, Local Business Member

Loren Lutzenhiser, Member at Large

Paulette Rossi, East Portland Member

Date: March 17, 2006

To: Mayor Tom Potter

Portland City Council

From: Portland Utility Review Board

Recommendation Summary

Regional Water Sales Agreement

The Portland Utility Review Board has reviewed the current draft of the Regional Water Sales Agreement. Having also heard testimony from Wholesale Customers, and City staff, PURB would submit the following opinion summary.

- PURB commends the City for recently finding flexibility in negotiating the Agreement Term. Providing options for non-renewal within specific time-frames leaves Wholesale Customers with future opportunities to pursue alternative water sources that will ultimately strengthen the reliability of this resource throughout the Region.
- We applaud the formation of the Water Managers Advisory Board. This Board provides an opportunity for consensus based development of operating practices that can assist in efficient and cost effective provision of water.

We did note however that Section 4, acknowledges the WMAB as advisory in nature. The word "shall" is used consistently throughout this section and could be interpreted as a directive which is inappropriate. We would recommend using the word "may" in parts C, D and E of this Section.

Part F of Section 4 addresses Protection of Confidential Information. Understanding the necessity of such language, we commend the inclusion of such a condition. However, protection of confidential information should be specific in identifying applicable "sensitive" documents and should be worded to avoid the denial of legitimate public information requests.

• Section 1, paragraph F states "Nothing in this agreement shall preclude the parties from entering separate agreements involving joint ownership or joint operation of system elements." This raises concern that commitments may be entered into which confine and/or limit future community action. It is PURB's position that keeping sole ownership of assets provides a check and balance and would dissuade unnecessary rate increases that would result from costly treatment or CIP's currently favored by wholesale

customers (see comments on Section 16 below). PURB would recommend careful and broad based public consideration of any and all separate agreements of this nature.

• Section 16 – Joint Funding of Capital Improvements is unsatisfactory to Portland rate payers. Many WMAB members support unnecessary treatment of Bull Run water, a third dam and/or covering of open water reservoirs. As stated above, retention of assets provides a check and balance in the Agreement and dissuades unnecessary expense. Wholesale customers will be slow to propose new CIP without the incentive of ownership at hand. A rationale of spreading cost to all rate payers to increase affordability is untenable if the cost is unnecessary to begin with.

Additionally, it is not a matter of IF, but WHEN a plume will contaminate the well field, or a slide will knock out a conduit from Bull Run. It is imperative that wholesale customers continue to pursue independent water sources, thus providing dependable backup resources for the City of Portland. Joint ownership, or joint funding of CIP will only continue to slow wholesale customer communities in these efforts.

- PURB would encourage continued study of Portland's dependence on wholesale customers for retail customer rate relief. The question of why Portland has excess capacity should be addressed. For example, does Portland have excess capacity because of Block Conservation pricing which puts a surcharge on customers that fall out of the first block? It should be acknowledged that while no-one should waste water, doing without water use is not conservation, but curtailment to avoid sticker shock. We would encourage the PWB to develop a future vision that facilitates affordable water rates without a wholesale customer base.
- PURB believes that the process would have benefited from their participation or observer status from the beginning of this process. PURB values public perspective and a balanced approach to meeting wholesale customer and community needs.

Respectfully submitted Portland Utility Review Board

Frank Ray Scott Fernandez Loren Lutzenhiser Paulette Rossi John Tyler Deborah Lark Carole B. von Schmidt Dennis Leland Amber Lewis Date: May 12, 2006

To: Portland City Council, interested parties From: Portland Utility Review Board (PURB)

Subject: PURB statement on BES bond term extensions

According to an independent study conducted recently by Black and Veatch, Portland has some of the highest combined water and sewer rates among the 50 largest cities in the United States. Portland sewer rates are the driver here, pushed higher and higher by the \$1.4 billion Combined Sewer Overflow project. BES sanitary sewer rates have been growing at 5.9% annually and are projected to grow at that rate or higher for at least the next five years if left unchecked.

In an effort to curb the growth in rates, the Portland City Council had been advised in 2005 by the Council-convened Team B Utility Review Group. They studied extending BES debt terms in order to lower debt service payments, thereby slowing rate growth. The City currently holds 20-year debt to finance most of the Combined Sewer Overflow project. By extending that debt to 25 or even 30 years, the Team B Utility Review Group advised, the City could improve its monthly cash flow and reduce annual sanitary sewer rate increases accordingly.

These projects include infrastructure and deferred maintenance on the sewer system. Some of the proceeds would still be used to lower rate increases to 5.6% a year for the next five years. But rates could be lowered by another half-percentage point if all the proceeds from the increased bond term, senior and junior notes, and more favorable interest rates were combined and used for curbing rate growth as originally recommended and intended.

Conclusion

The Portland Utility Review Board recommends the Council use all combined proceeds from the extension of Combined Sewer Overflow project bond debt for minimizing rate increases.

The entire amount of these funds should be used as they were originally intended by the Team B Utility Review Group to curb utility sewer rate increases and modestly ease the burden on Portland residents and businesses. Any effort to spend this money departs from the original motive for exploring the bond term extensions - minimizing rate increases. To stretch out debt at a high cost simply to provide more spending violates the original intent and spirit of the bond extension, and the PURB believes this is fiscally irresponsible.

The PURB recommends that the City use any financial savings that result from the extending the term of its debt to ease the burden on utility rate payers, and not to fund other projects that should be included in a prioritized biennial budget.

Portland Utility Review Board

Date: May 12, 2006

To: Portland City Council, interested parties From: Portland Utility Review Board (PURB)

Subject: Removing unrelated charges from utility rates, and listing all charges on customer billing statements.

The Portland Utility Review Board (PURB) was created to advise the City Council, on behalf of Portland citizens, on the fairness and equity of rates for utility services provided by the City: water, sewer, stormwater and the management of solid waste and recycling services.

As a guide for fulfilling that function, the PURB has adopted the cost-of-service principle as a rational gauge of the fairness of utility rates. Cost-of-service simply means that utility customers should only be charged for services that are a central and integral part of providing the utility services.

In using this gauge to evaluate the City's proposed utility rates for water, sewer and stormwater services, the PURB has identified costs imbedded in these rates that we believe do not meet these criteria. For example, costs that are for services not central and integral to providing utility services. Therefore, the PURB believes these costs should not be a component of the City's utility rates. These costs are:

- 1. System Development Charge waivers for builders of low-income housing.
- 2. Voter-Owned Elections.
- 3. The Low-income discount program.
- 4. The Portland Harbor Superfund program.
- 5. Renovation of historic cabins in the Bull Run watershed.
- 6. Waiver of impervious storm water charges for transportation.
- 7. Operation of the City's decorative fountains.
- 8. Outreach costs for the earned-income tax credit program.

For reasons outlined in the appendices to this report, we believe that the costs of these programs should be removed from utility rates. We recognize that it would be difficult to immediately remove these charges, and that there are different important justifications for each of them. However, we also believe that some alternative funding mechanisms need to be developed.

Furthermore, the PURB recommends that the City develop a utility billing statement that clearly details the costs of all the individual programs that customers are paying for. In addition to listing the costs of the programs mentioned above, the PURB believes that customer bills should list the costs of the utility license fee, debt service costs, and the costs of any other non-utility programs that may be a component of utility charges.

The PURB believes the City should set the goal of implementing this new utility bill within one year. A billing statement such as this would clarify for customers exactly what they are paying for in their utility bill, and would make the City's billing statements consistent with other utility

providers - such as electricity, natural gas, telephone and cable – where all charges are detailed on the monthly billing statement.

The PURB would appreciate the opportunity to be involved in these efforts, and we stand ready to assist the City Council and the Bureaus in implementing both of these initiatives that we are proposing.

Appendix 1:

Portland water, sewer and stormwater customers are being charged for programs that are not related to the provision of utility services.

- 1. System Development Charge waivers for builders of low-income housing: The City grants these waivers from the normal SDC that is charged to developers to pay for the cost of providing water, sewer and stormwater infrastructure. Since the infrastructure is still required, it is utility customers who make up the difference in cost, in-effect subsidizing new development through their payments to the City for their utility charges. This subsidy is not a cost of providing utility services to Portland customers.
- 2. Voter-owned elections: The Bureau of Environmental Services and the Portland Water Bureau pay for the City's Voter-Owned Elections program through interfund charges. These charges are ultimately funded by water, sewer and stormwater rates. Voter-Owned Elections are not a cost of providing utility services to Portland customers.
- 3. Low-income discount program: Portland has a progressive program that provides long-term continuous utility bill discounts to customers who qualify based on income level and size of household. The low-income discount program can be considered a social-welfare program, and although a worthy and needed program, it is not a necessary cost of providing utility services to Portland customers.
- 4. The Portland Harbor Superfund Program: The City of Portland is legally liable for the assessement and cleanup costs of a portion of the pollution that exists in Portland Harbor. Some of this toxic pollution was probably conveyed there by the City's sewer system that overflows into the Willamette River. Much of the pollution that exists in Portland Harbor was NOT conveyed there by the sewer system. In fact, the City is liable for the cleanup regardless of whether or not they continue to operate a sewer utility. The cleanup costs are a general liability of the City, and are unfairly being assessed to the current sewer customers who weren't the polluters of the Portland Harbor. These charges are not a cost of providing utility services to Portland customers.
- 5. Renovation of historic cabins in the Bull Run watershed: A handful of historic structures exist in the Bull Run watershed. The proposed budget appropriates funds to begin restoration of some of these structures. Preservation of historic structures, that are not integral to providing water service are costs that should not be charged to Portland's water customers.

- 6. Waiver of impervious stormwater charges for transportation: Stormwater charges are not assessed to the City's streets and roadways. As a result, the cost of conveying and disposing of stormwater from the City's streets and roadways is borne by homeowners and businesses. The cost of stormwater management for streets is not a cost of providing stormwater management services to residents and businesses, and should not be charged to those customers.
- 7. Operating costs for decorative fountains: The City's many decorative fountains are not an infrastructure component for providing water service to Portland's residents and businesses, and therefore should not be paid for by water customers.
- 8. Outreach program for the Earned Income Tax Credit: Outreach for the Stormwater Discount Program includes assisting customers in qualifying for the federal low-income tax credit program. PURB feels that assisting taxpayers with their federal tax filing is not an activity that should be funded by water and sewer customers.

Date: May 24, 2006

Portland Utility Review Board Rate Testimony to the Portland City Council

Frank Ray, Chair John Tyler, Vice Chair

The Portland Utility Review Board is a diverse group of citizens who have been tasked with advising the City Council about water, sewer, stormwater and solid waste rates. Thank you for allowing us the opportunity to address you this morning.

The citizens of Portland have much to be proud of in the utilities that are operated by the City of Portland. These utilities are managed efficiently and effectively, and are staffed by hard-working employees who are dedicated to their task of providing these critical services, for all our benefit. The more we learn the more impressed I become with the dedication of staff and the work that they do.

The Portland Water Bureau provides the best municipal drinking water in the nation, and does so through the skilled and prudent operation of a complex storage and delivery system, much of it constructed 100 years ago. The Bull Run Watershed that supplies our drinking water is a heritage that Portlanders cherish.

The Bureau of Environmental Services provides sewage treatment and disposal services, and manages stormwater runoff, and does so through their skilled operation of a complex and aging system - a system that requires a lot of effort and resources to maintain in good operating condition, in order to protect the environment and human health. BES has just begun the final phase of the Combined Sewer Overflow Project, a project that has already dramatically reduced the occurrence of sewage overflow into our rivers. Portlanders should be proud of this accomplishment.

The Office of Sustainable Development performs effective regulatory oversight of the City's solid waste and recycling haulers. This franchised system of residential haulers provides outstanding service to customers, as well as private-sector jobs at fair wages, and fair profits for both large and small businesses. Portlanders are fortunate to have a solid waste collection system that is very focused on recycling reusable materials, and reducing the waste stream that ends up in our landfills.

These basic services - supplying water, treating and disposing of sewage, managing stormwater runoff and the collection of solid waste and recyclable materials, are each performed at a fair and reasonable cost. However in addition to the cost of these services, Portlanders are paying for, through utility rates, other services as well. The PURB recommends that the City Council reconsider funding these other programs through rates, and identify other possible sources of funding.

It is not our intention in giving you our recommendations to pass judgment on the merits or value of any of these other services. Instead it is our purpose to simply point out that the rate base is being used to fund services that are not directly related or essential to the delivery of utility services. Although many of these programs that we identify have merit on their own and many provide laudable public benefits, the PURB believes that how they are funded should be reconsidered.

Furthermore, we would appreciate any opportunity that you may provide to continue our involvement in this topic. We look forward to being engaged in the important policy discussion regarding the role that these utilities play, the services they provide, and what services are funded through utility rates.

The PURB is also recommending that the Council reconsider the decision in the Approved Budget to spend the savings that were realized through a change in the structure of bonds that will be issued to provide financing for the CSO project. The debt service costs for these bonds will be lower than originally anticipated. We believe the City Council should allow customers to keep these savings.

In an era of very high sewer rates, we believe it is imperative that the City take every opportunity to provide rate relief to customers. We believe this is a perfect opportunity to provide some rate relief.

Thank you once again for the opportunity to share our views with you.

Date: June 16, 2006

To: Commissioner Leonard and Staff, Portland City Council and Staff, Portland Water

Bureau, Interested Parties

From: Portland Utility Review Board, Oregon Natural Resources Council, Citizens

Interested In Bull Run

Subject: Bull Run Management Unit Fire Plan 2006 Update

Bull Run Management Unit Fire Plan

The Bull Run watershed provides clean natural drinking water for hundreds of thousands of people delivered through many utility services. Fire prevention and protection is essential in maintaining the pristine status of this critical drinking water source. The Bull Run Management Unit Fire Plan (Plan) is more than a fire plan; it is also a protection plan. We recommend that the City and signees to the Plan consider the following issues important to the community and make them a high priority in the current Plan update.

1. Prevention / Pre-Suppression –

- a) Adequate signage regarding the prohibition of human entry into the Bull Run Management Unit (BRMU) should be implemented and maintained around the periphery of the Unit, along the Pacific Coast Trail within the BRMU, and along riverbanks where recreationists may inadvertently enter the Unit.
- b) Preventive measures such as restriction of smoking and open fires and improper use of equipment should be posted inside BRMU, along the Pacific Crest Trail inside the BRMU, and immediately outside the BRMU on federal public land.
- c) Because escaped slash burns outside of the BRMU is a known cause of fire in the BRMU, private owners and managers of private and public (county and federal) forests, should give notice to Oregon Department of Forestry (ODF) and the City of Portland when slash burning or similar activities take place within 0.25 miles of the BRMU boundary.
- 2. **Early detection** Important outposts such as the Hickman observation facility should be operated by professionally trained personnel 7 days a week / 24 hours a day from July 1 to November 1. New technology can provide additional assistance. Consider use of a Video Camera Surveillance System at Hickman observation facility and at other points in the BRMU.
- 3. **Adequate response** Immediate response to a fire, coordinated in minutes, is critical to control and containment. The community proposes contracted fire professionals (Oregon Department of Forestry, U.S. Forest Service), should have access to 24 hour standby helicopter and air tanker support.

- 4. **Responsibility Flow Charts** Development of flow charts / responsibility trees is critical in establishing consistent immediate response and efficient communication. The documents should clearly identify the City's Resource Advisor (RA, and back up) and clearly outline chain of command and with whom to communicate in requesting a fire response. These documents must be readily available, regularly distributed, and updated weekly from May to November. The City's RA must be consulted when decisions regarding type of response (i.e. where and when to utilize chainsaws and bulldozers) are made.
- 5. **Fire Excursion from Eastern Boundary** The eastern boundary of the Bull Run Management Unit is part of the Pacific Crest Trail and is heavily used for hiking. Camping in Hood River County also occurs in the same area. Human activities are often sources of fire ignition. Fire risk intensifies with the influence of east winds. The community asks for an agreement with appropriate agencies providing for fire protection and assistance in the Hood River County. These agencies also need to engage and participate in future Plan discussions.
- 6. **Fire Retardant** Because of their chemical composition, toxicity, and residual, the community is concerned that fire retardants and foam may be used in a watershed that provides drinking water. We ask for a study and further discussions to include investigation of effectiveness, potential health effects, and timing of application of retardant and foam to Bull Run forests and waters.

Sincerely,

Portland Utility Review Board

Regna Merritt - Oregon Natural Resources Council

Franklin Gearhart - Citizens Interested In Bull Run